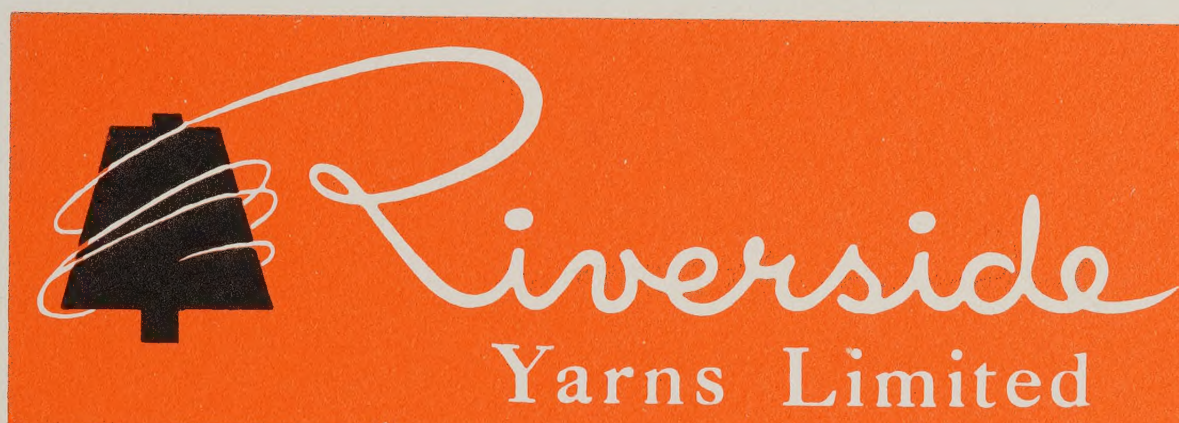


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ANNUAL REPORT



1972



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Directors

R. J. ANDERSON
J. S. DEACON
S. E. EDWARDS, Q.C.
A. GOLD
WM. W. LAIRD, Q.C.

Officers

A. GOLD,
PRESIDENT
WM. W. LAIRD, Q.C.,
EXECUTIVE VICE PRESIDENT
L. R. DOBBIN,
VICE PRESIDENT & GENERAL MANAGER
S. E. EDWARDS, Q.C.,
SECRETARY

Head Office and Plant

CAMBRIDGE, Ontario

Bankers

Royal Bank of Canada

Solicitors

Fraser & Beatty

Transfer Agents and Registrars

National Trust Company,
Toronto

Auditors

Thorne, Gunn & Co.
Chartered Accountants, Toronto

Annual Meeting

June 7, 1973 — 10:30 a.m.
Head Office, Cambridge, Ontario

Report of the directors

TO THE SHAREHOLDERS

On behalf of the Board of Directors, I submit the Annual Report for the year ended December 31, 1972, along with the Financial Statements and the Report of the Auditors.

FINANCIAL HIGHLIGHTS

	1972	1971	% CHANGE
Sales Dollars	\$4,774,000	\$4,448,000	7
Sales Pounds	3,941,000	2,980,000	32
Loss	178,000	90,000	98
Loss Plus Preferred Dividend	238,000	149,000	60
Loss per Common Share	1.40	0.88	60
Cash Flow	98,000	113,000	(13)
Long Term Debt	651,000	764,000	(15)
Working Capital	342,000	360,000	(5)
Working Capital Ratio	1.42:1	1.30:1	10

SALES

Sales in terms of dollars and pounds showed an increase over last year. Commission throwing accounted for a much larger portion than last year resulting in a smaller increase in sales dollars than in sales pounds.

Selling prices of textured polyester dropped below cost over the first nine months of operations. However, the final quarter experienced a firming of prices and volumes for both polyester and nylon.

EARNINGS

The major factors affecting earnings were:

- (a) Volume of production operating at less than capacity in some departments.
- (b) Price erosion—mainly for textured polyester.
- (c) Bad debt expense \$100,000.
- (d) Inventory losses totalling \$66,000, caused by the erosion of raw yarn prices.

Operations were profitable in the final quarter.

BALANCE SHEET

Despite the losses incurred, working capital is down only 5% and the ratio shows an improvement of 10%. The two actions taken that resulted in this improvement were (a) a six month deferrment of long term debt repayments, and (b) the transfer of the polyester processing to a commission throwing basis thereby reducing inventories and receivables. Bank loan advances were reduced to \$14,000.

The 6½% mortgage bonds (\$60,000) were retired in full at maturity date on September 15, 1972.

THE OUTLOOK

The outlook for 1973 is much improved. Demand for your company's products is strong and as a result prices have increased.

Polyester production in Japan and Europe has been cut back and the Textile and Clothing Board has recommended to the Federal Government the application of a surtax, on yarn imports, to be applied if and when required to prevent injury to Canadian producers.

As previously announced to the press, the following are the results of the first quarter of 1973 compared with 1972.

	1973	1972
Operating profit	\$ 169,000	\$ 9,000
Net profit (loss) before income taxes	102,000	(54,000)

Due to prior years losses, no estimate of income taxes has been made.

EMPLOYEES

We wish to express our thanks to all our employees for their co-operation and dedication throughout this past year.

A. GOLD
President

AUDITORS' REPORT

TO THE SHAREHOLDERS OF RIVERSIDE YARNS LIMITED

We have examined the balance sheet of Riverside Yarns Limited as at December 31, 1972 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1972 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cambridge, Ontario
April 18, 1973

THORNE, GUNN & CO.,
Chartered Accountants

Riverside Yarns Limited

STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1972
(with comparative figures for 1971)

	1972	1971
Sales and commission revenue	\$4,774,234	\$4,448,320
Cost of goods sold, excluding depreciation	4,075,656	3,845,751
Gross profit, excluding depreciation	698,578	602,569
Selling and administrative expenses	503,761	404,892
Interest on long-term debt	106,168	88,758
Financing expenses amortized	2,940	3,767
Earnings before undernoted items	612,869	497,417
Profit on sale of fixed assets	85,709	105,152
	9,125	3,729
Depreciation	94,834	108,881
	272,548	231,983
Loss before income taxes	177,714	123,102
Income taxes (note 6)		
Deferred reduction	—	33,421
LOSS FOR THE YEAR (notes 6 and 7)	\$ 177,714	\$ 89,681

STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1972
(with comparative figures for 1971)

	1972	1971
Balance at beginning of year as previously reported	\$ 402,428	\$ 482,479
Adjustment of prior years' expenses (note 8)	20,756	11,126
As restated	381,672	471,353
Loss for the year	177,714	89,681
BALANCE AT END OF YEAR	\$ 203,958	\$ 381,672

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1972

(with comparative figures for 1971)

SOURCE OF FUNDS

	1972	1971
Operations		
Loss for the year	\$ (177,714)	\$ (89,681)
Items not involving current funds		
Depreciation and amortization	275,488	235,750
Deferred income taxes	—	(33,421)
(Profit) loss on sale of fixed assets	(9,125)	(3,729)
	88,649	108,919
Proceeds from sale of fixed assets	22,551	4,426
Proceeds of mortgage payable	—	500,000
	111,200	613,345

APPLICATION OF FUNDS

Additions to fixed assets	15,466	476,804
Principal on long-term debt paid or included in current liabilities	113,240	250,400
Financing expenses incurred	—	5,392
	128,706	732,596
DECREASE IN WORKING CAPITAL	17,506	119,251

WORKING CAPITAL AT
BEGINNING OF YEAR

As previously reported	\$ 380,383	\$ 490,004
Adjustment of prior years' expense (note 8)	20,756	11,126
As restated	359,627	478,878
WORKING CAPITAL AT END OF YEAR	342,121	359,627

Riverside Yarns Limited

(Incorporated under the laws of Ontario)

BALANCE SHEET — DECEMBER 31, 1972

(with comparative figures at December 31, 1971)

ASSETS

CURRENT ASSETS

	1972	1971
Accounts receivable	\$ 692,612	\$ 917,600
Income taxes recoverable	1,757	2,361
Inventories (note 1)	389,547	589,291
Prepaid expenses	67,822	73,213
	<u>1,151,738</u>	<u>1,582,465</u>

FIXED ASSETS (note 2)

Land, buildings, machinery and equipment	2,478,261	2,575,272
Less accumulated depreciation	1,614,301	1,440,804
	<u>863,960</u>	<u>1,134,468</u>

DEFERRED FINANCING EXPENSES, less amortization	6,837	9,777
	<u>\$2,022,535</u>	<u>\$2,726,710</u>

LIABILITIES

CURRENT LIABILITIES

Bank advances (note 3)	\$ 12,687	\$ 242,241
Accounts payable and accrued liabilities	534,151	695,244
Taxes payable	41,669	43,263
Principal due within one year on long-term debt	220,110	242,090
	<u>809,617</u>	<u>1,222,838</u>

LONG-TERM DEBT (note 4)	650,960	764,200
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SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 5)

Authorized

120,000 Class A \$.50 cumulative convertible
voting shares without par value

290,000 Common shares without par value

Issued

120,000 Class A shares }	\$ 358,000	\$ 358,000
170,000 Common shares }		

RETAINED EARNINGS	203,958	381,672
	<u>561,958</u>	<u>739,672</u>
	<u>\$2,022,535</u>	<u>\$2,726,710</u>

Director: J. S. DEACON

Approved by the Board

Director: W. W. LAIRD, Q.C.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1972

1. INVENTORIES	1972	1971
Raw materials	\$ 41,919	\$ 131,833
Work in process	71,401	124,789
Finished goods	276,227	332,669
	<u>\$ 389,547</u>	<u>\$ 589,291</u>

Raw materials are valued at lower of cost and replacement cost. Work in process and finished goods are valued at lower of cost and net realizable value.

2. FIXED ASSETS	1972		1971	
	Asset value	Accumulated depreciation	Net	Net
Land	\$ 6,600		\$ 6,600	\$ 6,600
Buildings	387,222	\$ 268,998	118,224	120,466
Machinery and equipment	2,084,439	1,345,303	739,136	1,007,402
	<u>\$ 2,478,261</u>	<u>\$1,614,301</u>	<u>\$ 863,960</u>	<u>\$ 1,134,468</u>

Land and buildings are valued at replacement value as of April 20, 1928 with subsequent additions at cost. Machinery and equipment are valued at cost.

It is the company's policy to write off the cost of fixed assets over the estimated number of years in which the asset can economically contribute to earnings.

Asset Class	Rate	Method
Buildings	5%	declining balance
Machinery and equipment		
Additions prior to 1968	20%	declining balance
1968 and subsequent additions mainly	20%	straight line

3. BANK ADVANCES

Accounts receivable and inventories are pledged as security for bank advances.

4. LONG-TERM DEBT

	1972	1971
6½% First mortgage sinking fund bonds, Series A, maturing September 15, 1972		\$ 60,000
9.4% Mortgage loan (9% in 1971) maturing August 23, 1975 (February 22, 1975 in 1971)	\$ 214,400	254,600
12% Mortgage bond, maturing June 15, 1976 (December 15, 1975 in 1971)	175,000	200,000
12% Mortgage loan, maturing January 23, 1978 (April 23, 1977 in 1971)	481,670	491,690
	<u>871,070</u>	<u>1,006,290</u>
Less principal included in current liabilities	220,110	242,090
	<u>\$ 650,960</u>	<u>\$ 764,200</u>

During 1972 a six month deferment was granted by the mortgagees on 1972 principal instalments resulting in the extension of the maturity dates of the loans and an increase in the interest rate, as indicated.

Riverside Yarns Limited

4. LONG-TERM DEBT (Continued)

These debt instruments are secured by the company's fixed assets and in addition the 12% mortgage loan is secured by a floating charge on all assets and undertakings of the company.

Principal due within each of the next five years is as follows:

1973	\$220,110
1974	226,400
1975	199,640
1976	120,880
1977	96,000

5. CAPITAL STOCK

The Class A shares are convertible into common shares on the basis of one common share for each two Class A shares converted.

Dividends on Class A shares are paid to December 31, 1969 and arrears at December 31, 1972, amount to \$1.50 per share totalling \$180,000.

Conditions attaching to the mortgage loans place certain restrictions on the payment of dividends.

6. INCOME TAXES

Excess of undepreciated capital cost over net book value of depreciable fixed assets amounting to approximately \$259,000 is available as a deduction from future income for tax purposes. The tax effect of this excess has not been recorded in the accounts.

Additional capital cost allowance is available for Federal tax purposes under Regulation 1102 (15) (16) of the Income Tax act in the amount of approximately \$73,000.

7. LOSS PER COMMON SHARE

Loss per common share after provision for cumulative dividends for the year on Class A shares: 1972, \$1.40; 1971, \$.88.

8. ADJUSTMENT OF PRIOR YEARS' EXPENSES

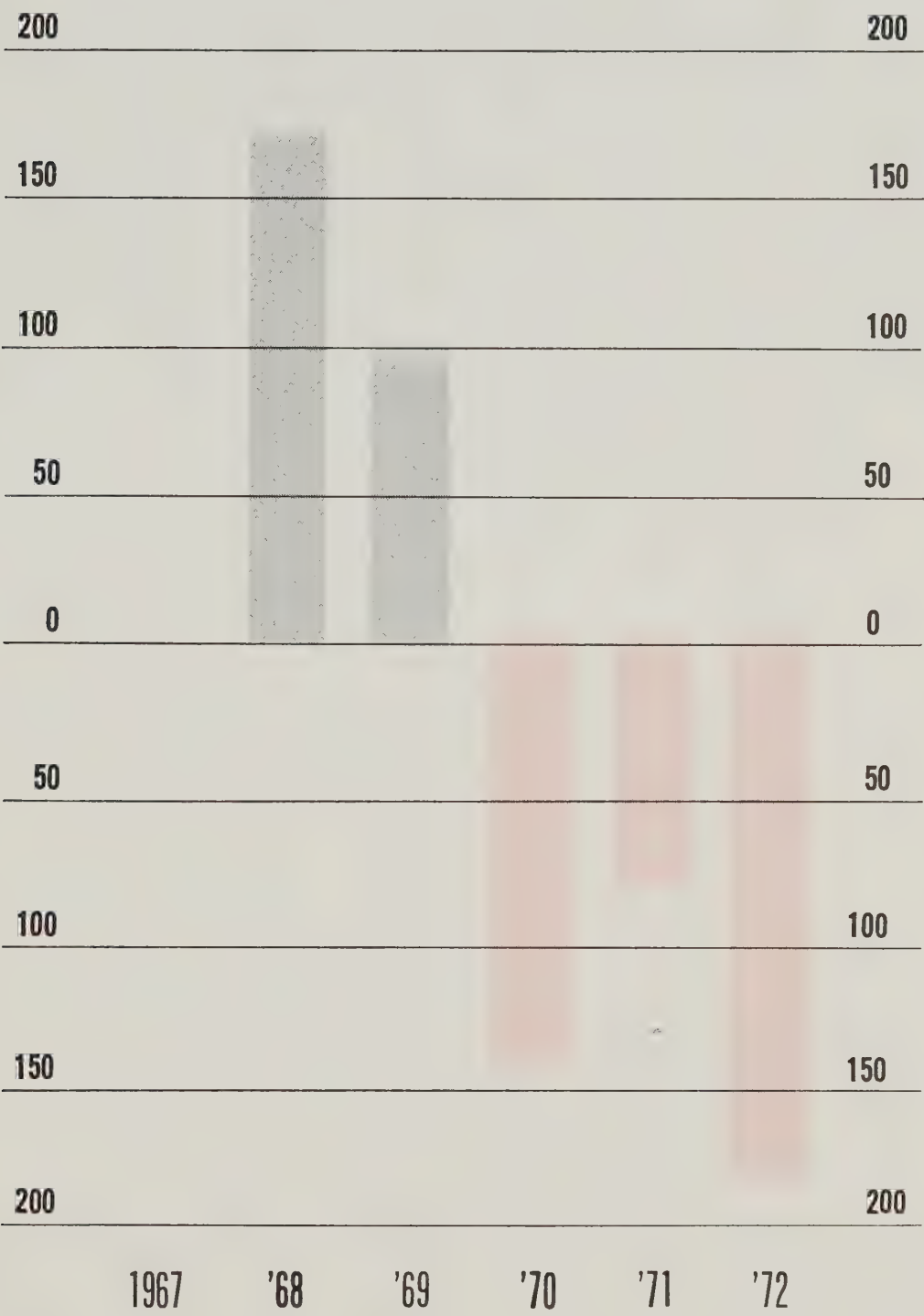
It was determined during 1972 that certain costs of material purchases had been incorrectly recorded with respect to 1970 and 1971. Retained earnings at January 1, 1971 has been restated to reflect the increased costs of \$11,126 relating to 1970. The 1971 figures in the financial statements have been restated to reflect the increased costs of \$9,630 relating to that year.

9. OTHER STATUTORY INFORMATION

Direct remuneration of directors and senior officers	1972	1971
(as defined by The Business Corporations Act)	\$ 84,329	\$ 84,022

PROFIT and LOSS

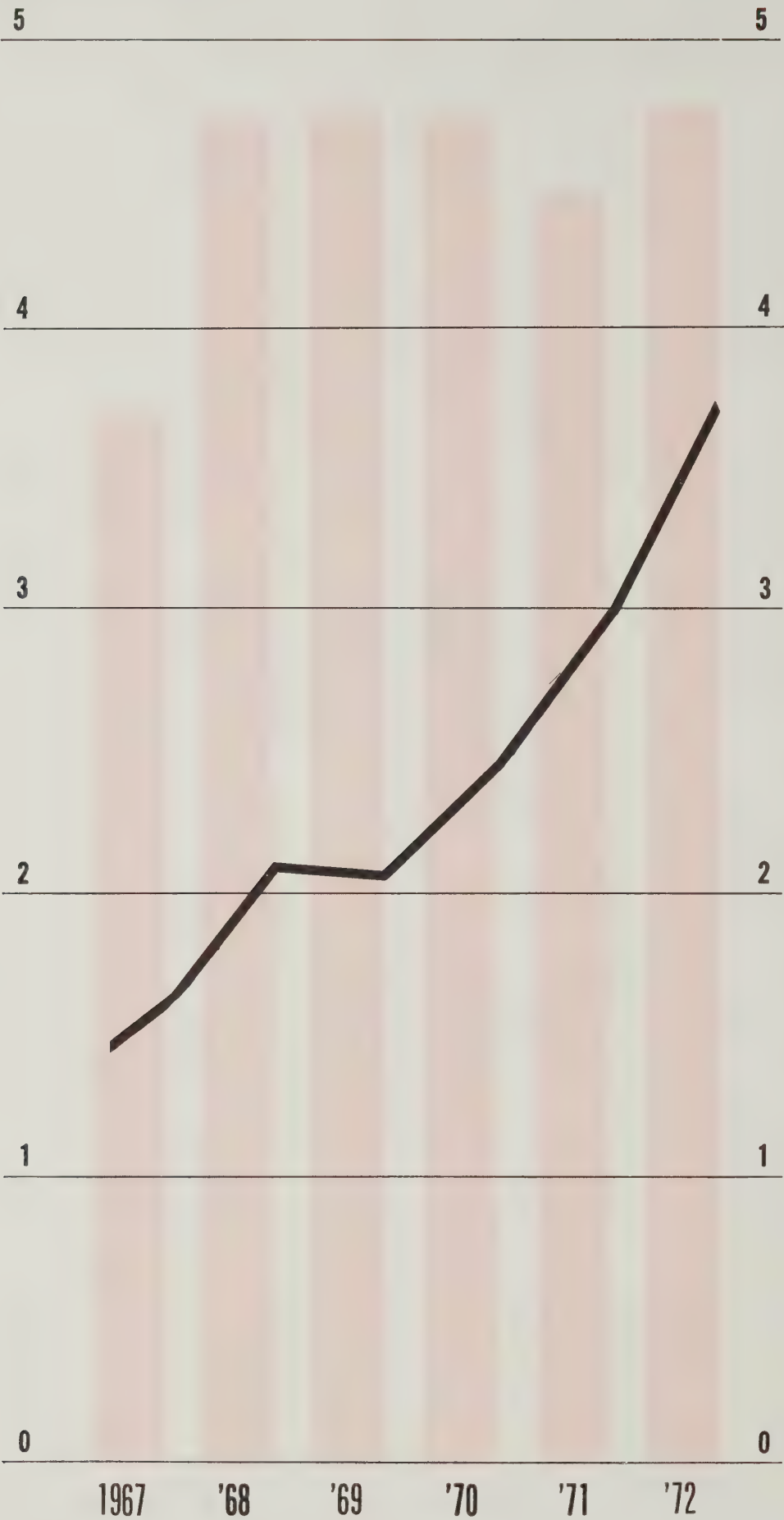
Thousands of dollars



Riverside Yarns Limited

SALES

BAR - SALES IN MILLIONS OF DOLLARS
LINE - SALES IN MILLIONS OF POUNDS



Six Year
Financial Summary
See Overleaf

SIX YEAR FINANCIAL SUMMARY

INCOME AND EXPENSE						
	1972	1971	1970	1969	1968	1967
Sales	\$4,774,234	\$4,448,320	\$4,719,889	\$4,797,135	\$4,745,554	\$3,615,773
Cost of goods sold excluding depreciation	4,075,656	3,845,751	4,162,412	4,070,176	3,982,072	3,266,049
Gross profit	698,578	602,569	535,225	726,959	763,482	349,724
Selling and administrative expenses	503,761	403,692	448,218	327,538	286,648	223,626
Directors' fees	1,100	1,200	1,300	2,600	1,300	1,800
Interest on long-term debt	106,168	88,758	72,653	46,425	23,483	30,105
Financing expenses amortized	2,940	3,767	4,066	1,665	1,636	2,157
	612,869	497,417	526,237	378,228	313,067	257,688
Earnings before undernoted items	85,709	105,152	8,988	348,731	450,415	92,036
Profit (loss) on sale of fixed assets	9,125	3,729	(32,887)	10,845	2,399	999
	94,834	108,881	(23,899)	359,576	452,814	93,035
Depreciation	272,548	231,983	262,234	183,577	123,146	96,998
Earnings (loss) before income taxes	(177,714)	(123,102)	(286,133)	175,999	329,668	(3,963)
Income taxes	—	—	(38,959)	38,959	71,329	—
Current	—	(33,421)	(91,764)	44,436	85,861	(299)
Deferred	—	(33,421)	(130,723)	83,395	157,190	(299)
Net earnings (loss) for year	\$ (177,714)	\$ (89,681)	\$ (144,284)	\$ 92,604	\$172,478	\$ (3,664)

FINANCIAL AND OTHER INFORMATION						
	1972	1971	1970	1969	1968	1967
Working capital	342,121	359,627	478,878	414,273	621,510	526,155
Working capital ratio	1.42:1	1.29:1	1.43:1	1.35:1	1.68:1	1.60:1
Long-term debt	650,960	764,200	514,600	655,000	494,900	243,520
Shareholders' equity	561,958	739,672	829,353	992,056	966,066	793,588
Number of shares outstanding — Class A	120,000	120,000	120,000	120,000	120,000	120,000
Common	170,000	170,000	170,000	170,000	170,000	170,000
Equity per share	2.82	3.21	3.15	3.42	3.33	2.74
Class A	1.32	2.21	2.65	3.42	3.33	2.74
Common	(1.40)	(.88)	(1.20)	.19	1.01	(.02)
Net earnings (loss) per share	—	—	—	.50	—	—
Dividends paid per share	—	—	—	—	—	—
Class A	1.50	1.00	.50	—	—	—
Common	109,200	113,345	30,252	322,282	383,121	95,192
Cash flow from operations	19.4%	16.1%	3.6%	32.4%	39.7%	12.0%
% of cash flow to shareholders' equity	15,466	476,804	18,861	632,762	544,379	43,254
Purchase of fixed assets	863,960	1,134,468	890,343	1,345,899	915,362	500,857
Fixed assets (net)						

NOTE: Number of shares outstanding and per share items have been restated for years prior to 1970 to reflect the 1970 capital reorganization.

MEMORANDA

